Federal CIO Council Meeting: Strategic Alliance and Knowledge Research Project

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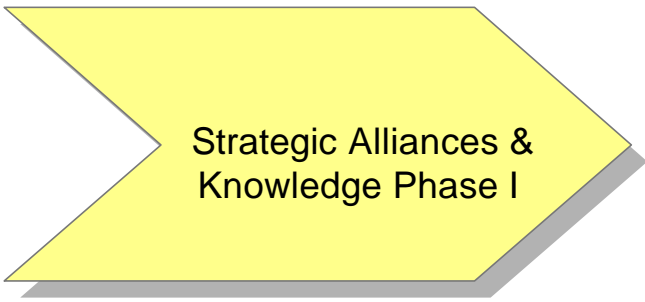sparise@us.ibm.com

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IBM

Agenda

··┊·   **Brief Overview of IKO Alliance Research to Date**

A Portfolio Approach to Understanding Alliances

Alliance Portfolio Research

Implications for Alliance, Strategy, and KM Practitioners

We are currently conducting research to understand how companies effectively design & manage a *portfolio* of alliance partners

Strategic Alliances & Knowledge Phase I

Strategic Alliances & Knowledge Phase II

Research Question: How can companies effectively leverage knowledge management across their alliances?

✓ Performed alliance/KM literature review & analysis

✓ Conducted review sessions with pharmaceutical companies to analyze alliance knowledge requirements

✓ Developed prototype tool that outlines knowledge management solutions for selected alliance success factors

✓ See Appendix for published white papers & journal articles

Research Question: How can companies effectively design & manage a portfolio of alliance partners?

✓ Developed Alliance Portfolio Model

✓ Conducted interviews with alliance managers across several companies to validate research model

✓ Developed survey assessment instrument

✓ Completing survey administration & analysis of results

✓ Deliverables: company-specific reports, white papers with generalized findings, journal articles, industry-specific toolkits
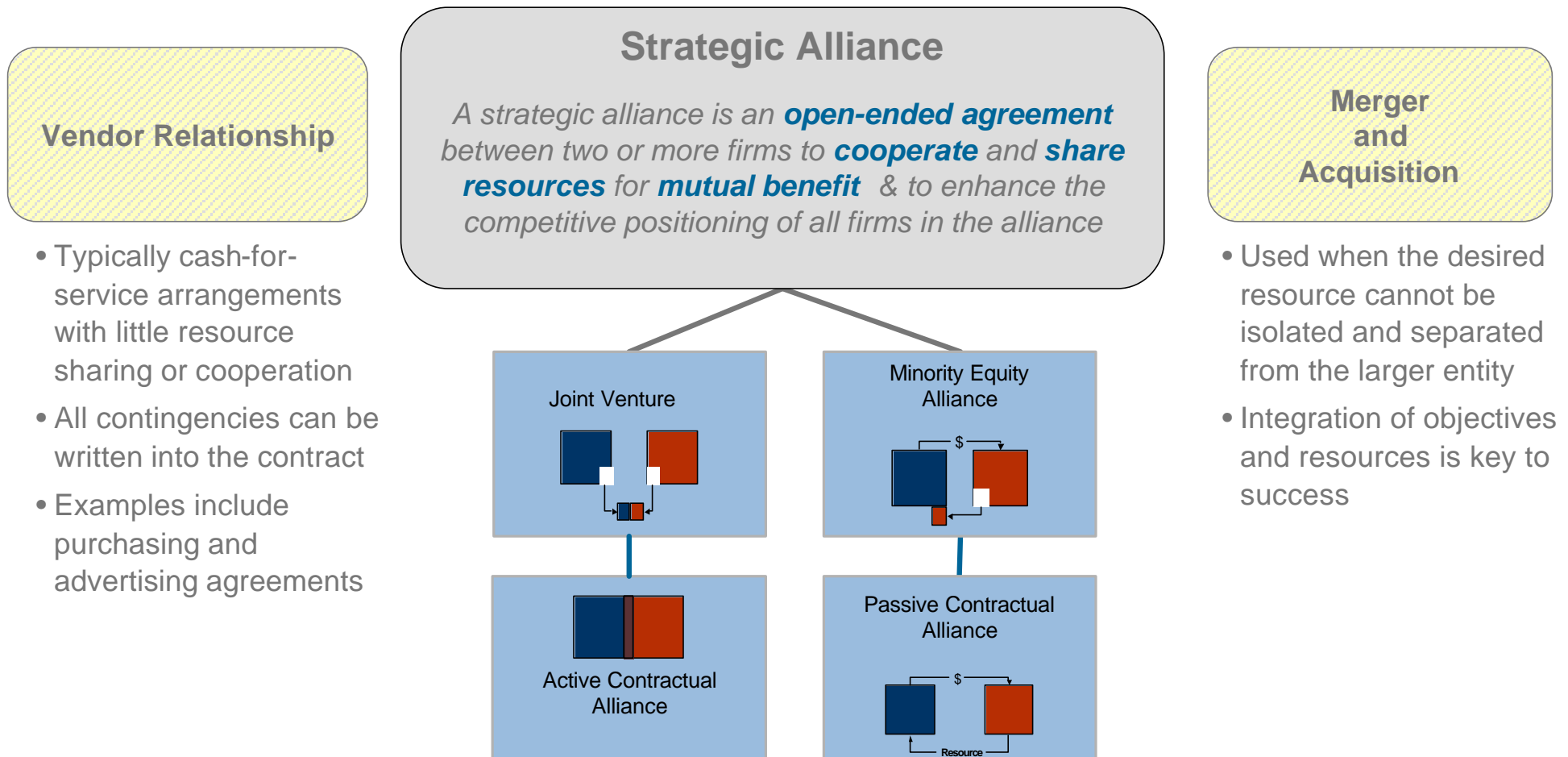
Agenda

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Alliances are typically structured as open-ended agreements between firms, where the relationship is one key to success

Strategic Alliance

*A strategic alliance is an **open-ended agreement** between two or more firms to **cooperate** and **share resources** for **mutual benefit** & to enhance the competitive positioning of all firms in the alliance*

Vendor Relationship

- Typically cash-for-service arrangements with little resource sharing or cooperation
- All contingencies can be written into the contract
- Examples include purchasing and advertising agreements

Merger and Acquisition

- Used when the desired resource cannot be isolated and separated from the larger entity
- Integration of objectives and resources is key to success

Joint Venture

Active Contractual Alliance

Minority Equity Alliance

Passive Contractual Alliance

Source: adapted from Das, T.K. and Bing-Sheng Teng, A Resource-Based Theory of Strategic Alliances, 2000.

Companies have recognized value from alliances and are entering into more and more partnerships

Worldwide Strategic Alliances, 1990-2000E
Alliances Formed Annually

CAGR ~25%

Number of Alliances

Year	Value
1990	2,000
1995	10,000
2000E	20,000
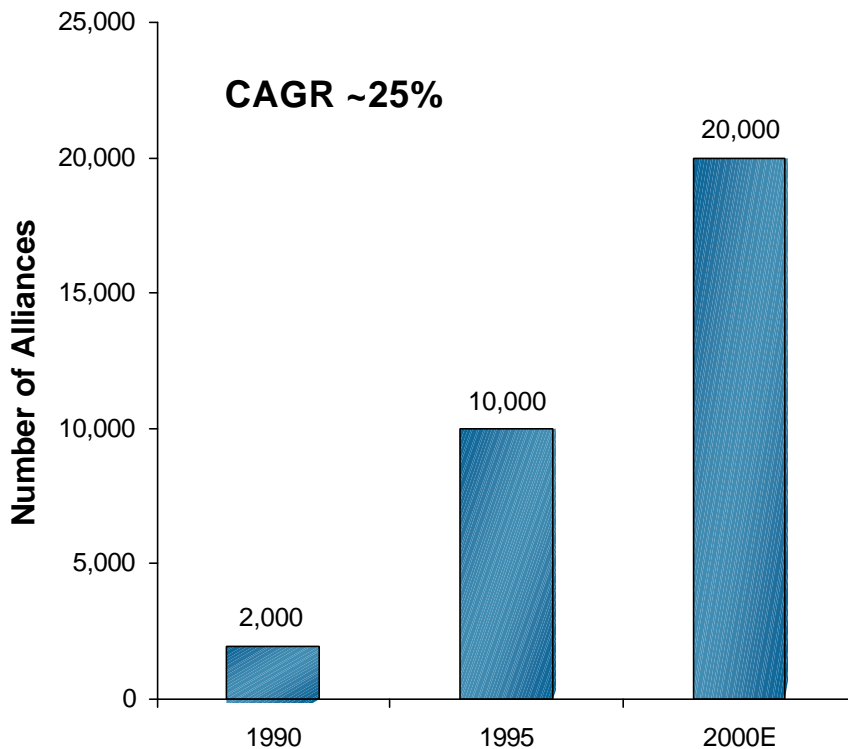
Key Stats

- In 2000, the Fortune 500 had an average of 60 major strategic alliances each

- On average, a company's stock price increases 1% with each announcement of a new alliance, which translates to an average increase in market value of $54 million per alliance[1]

- The global value of alliances is predicted to reach up to $40 trillion by 2004

- In 1995 alliances accounted for 15% of company's revenue; 21% in 1998; by 2004, alliances are expected to account for 35% of revenue

- Recently, more than 50% of alliances were formed with competitors ("Co-opetition")

[1] Based on a study conducted in 2000 of 200 corporations and their 1,527 alliances
Source: "How to Make Strategic Alliances Work", Sloan Mgt. Review, Summer 2001; Dispelling the Myths of Alliances - Accenture 1999; Smart Alliances, Harbison, Pekar Jr, 1998; "Alliance Management" – CMA Management Dec. 99 / Jan. 00.
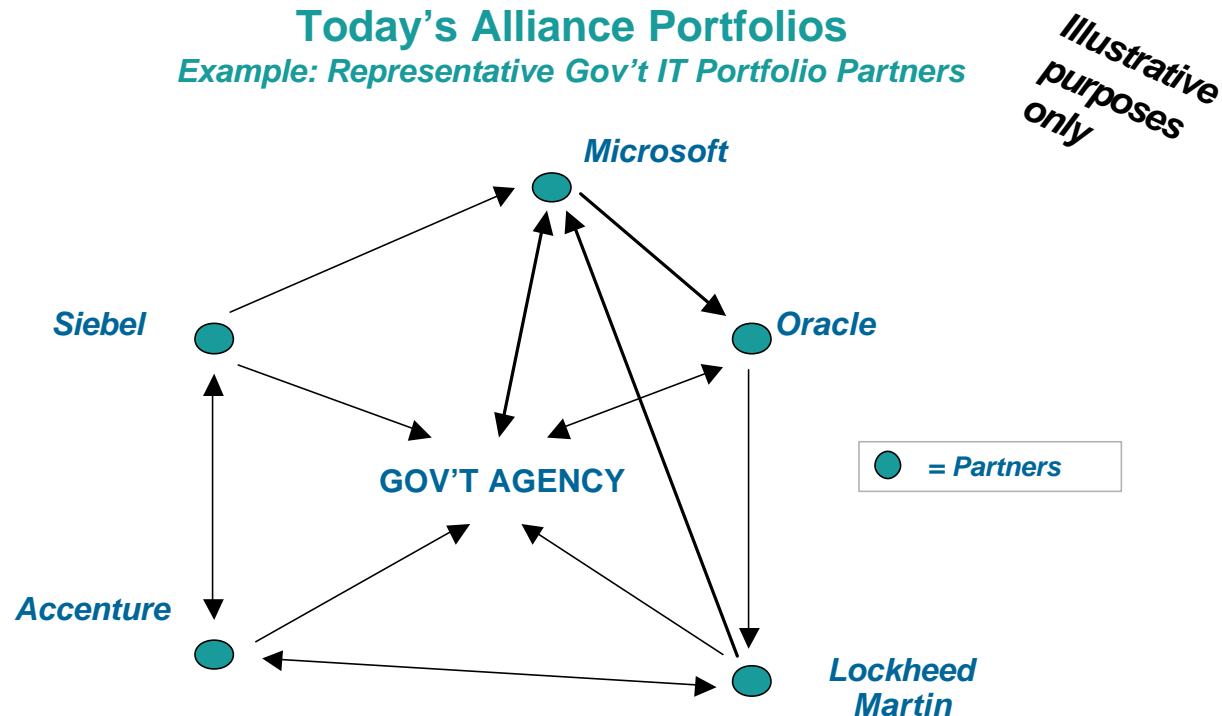
Alarmingly, alliance success rates of less than 50% are common[1]

Both design and management reasons are the causes for failure:

Problem	Explanation
Misalignment with business strategy	• Often, alliances are not aligned with business strategy or business metrics
Inability to manage complexity	• Companies engage in multiple alliances simultaneously, yet do not manage them holistically
Inability to design & manage knowledge-based alliances	• Increasingly, companies are entering alliances to acquire capabilities & know-how, yet do not have the ability to do so
Co-opetition results in unanticipated effects	• Companies need to balance the trade-off between cooperating (or sharing) versus competing (or protecting)

Companies must design and manage their alliances as a portfolio using a holistic approach, rather than in isolation

Today's Alliance Portfolios
Example: Representative Gov't IT Portfolio Partners

Illustrative purposes only

Microsoft

Siebel

Oracle

GOV'T AGENCY

⬤ = Partners

Accenture

Lockheed Martin

- Knowledge can be shared among alliance managers
- Can find synergies among alliances
- Can identify constraints among alliances
- Helps with alignment between business strategy & alliance strategy
- Helps identify any gaps with alliance strategy

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Increasingly, the relationship between alliance partners is believed to play a critical role with alliance success

Relational Capital Variables	Why Important?
Trust	• Trust provides a "spirit" for collaboration in the alliance, while at the same time reduces transaction costs associated with monitoring partner behavior and writing contingencies in contracts
Social Interaction	• Effective dialogue and communication among alliance members result in clear objectives, purpose, and commitment
Transparency	• Transparency is a measure of the openness of a partner to provide information and knowledge. Need to balance transparency with protection of intellectual property
Commitment	• Alliance success is often dependent on the partner's commitment of resources to the alliance
Compatibility	• The alliance is often jointly managed by each partner, so compatibility in managerial styles is critical

Source: IKM white paper, 2001.

Alliance management capability factors should also have an impact on alliance performance

Alliance Management Capability Factors	What is it?
Knowledge Management	• The degree to which a company captures, shares, and leverages information and knowledge across its alliances. Also, the systems a company has in place to promote communications among its alliance managers
External Positioning	• The degree to which a company promotes its alliances and alliance partners externally, as well as the systems it has in place to attract potential partners
Internal Coordination	• The alignment between the alliance group's strategy, incentive, and resource allocation system with the rest of the organization
Performance Measurement	• The ability of a company to measure the health of its alliances, including the ability to assess and incorporate the partner's feedback to improve existing alliances

Source: Forthcoming in IBM/IKO Research Paper

There are a range of KM practices that companies can undertake to improve their alliance capabilities

Knowledge Management Practices

Starting Point	**Alliance Repository**	*Technology*	▪ A database, important during the *Find Phase,* that is a repository for past and current alliance documents, existing legal contracts, and partner/industry specific information that is critical when developing an alliance strategy and selecting new alliance partners.
	KM Intermediaries	*People*	▪ A person whose roll it is to capture, codify and disseminate relevant knowledge (e.g., industry specific info, info on current alliances, etc.)
	Alliance Profiler	*Technology*	• A system that is used to locate, assess and staff people within the organization that have skills which are relevant to the alliance project. Most useful in the *Design Phase.*
	Partner Social Capital	*Processes*	▪ Process of building trust and effective communication with the alliance partner. ▪ It is critical that both partners are clear about the processes and norms of interactions. ▪ Additionally, schedule non-alliance related events to build social capital between partners.
	Alliance Training		▪ Formal training programs should be created for alliance managers and all team members. ▪ Training should emphasis learning and instill consistency and standard processes across all alliance groups.
	Alliance Director	*People*	▪ A person whose role it is to oversee and manage the complexities associated with maintaining a portfolio of alliance partners.
	Alliance Communities	*People, Technology*	▪ Electronic meeting rooms, communication databases or formal committees that enable sharing of personal experience, expertise and tacit knowledge around a common interest or practice.
Full Solution	**Formal Alliance Processes and Programs**	*Processes*	▪ Overtime, formal alliance processes and programs should be created to institutionalize alliance know-how. ▪ Companies who have reached this level of maturity are often viewed as "preferred partners" in the marketplace.

Source: IKM Research Report: Knowledge, Innovation & Alliances Toolkit, 2001.

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Our preliminary findings suggest that certain alliance characteristics, especially relational capital, impacts alliance outcomes

How do we build relational capital (e.g., trust, social interaction), especially with first-time partners?

- Have alliance managers dedicated to the alliance

- Negotiate the alliance in good faith by striving for "win-win"

- Show commitment to the alliance by having key partners involved in your strategy development sessions

- Develop informal activities with the partner to build social capital

- Learning objectives should be made explicit along with other alliance goals

- Be transparent but make it clear what intellectual property will and will not be used in the alliance and for what purpose

These findings also reveal that alliance management capability has an impact on outcome performance

How can companies build, improve, and leverage their alliance management capability (AMC)?

- Requires an investment in resources, such as knowledge management practices and training programs

- Alliance management can be either a formal program in an organization (e.g., a dedicated department) or a more informal process (e.g., through communities of practice). Both can be effective

- Interactions between alliance managers, alliance directors, and business developers is critical to alliance management success. Understand how key alliance personnel communicates (both internally and with the partner)

- External positioning can be leveraged to build a "preferred partner" reputation. Communicate your alliance successes to the marketplace

Source: Forthcoming in IBM/IKO Research Paper

Key Takeaways

Summary

- Expectations are high for alliance partnerships; companies today are entering into an increasing number of alliances that are expected to have a strategic impact

- Developing strong and effective alliance management capabilities across the portfolio of partners is one of the keys to sustaining successful alliances

- In today's knowledge-based economy, it is critical to have a portfolio of knowledge-based alliances with a combination of competitors, suppliers, customers, complementors, and others

- Knowledge management and information sharing should not only occur between the immediate alliance portfolio, but also among the extended alliance partnership network

- Finally, company's partnership portfolio strategy should be closely and carefully aligned with the company's business strategy goals

Source: IBM 2002.